

**LEGISLATIVE ASSEMBLY OF MANITOBA**  
**THE STANDING COMMITTEE ON ECONOMIC DEVELOPMENT**

**Thursday, 14 May, 1987**

**TIME — 10:00 a.m.**

**LOCATION — Winnipeg, Manitoba**

**CHAIRMAN — Mr. C. Santos (Burrows)**

**ATTENDANCE — QUORUM - 6**

*Members of the Committee present:*

Hon. Messrs. Harapiak (The Pas), Schroeder,  
Storie, Hon. Ms. Hemphill

Messrs. Baker, Connery, Downey, Enns,  
Maloway, Santos

**APPEARING:** Mr. Murray Harvey, Chairman, Manfor  
Ltd.

**MATTERS UNDER DISCUSSION:**

Annual Report of Manfor Ltd. for the period  
ended December 31, 1986

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**MR. CHAIRMAN:** The committee will please come to  
order.

We are to consider the Annual Report of Manfor Ltd.  
for 1986.

The Honourable Minister.

**HON. J. STORIE:** Thank you, Mr. Chairman.

For members of the committee who aren't familiar  
with some of the faces here with us today, I will introduce  
on my left the Chairman of the Board of Directors, Mr.  
Murray Harvey. Also with us today are Mr. Bill  
Henderson, who is the Director of Planning and  
Administration; Mr. Allan Bourgeois who is the Acting  
President; and Mr. Derrick Betts, who is the Director  
of Finance and Administration.

I didn't intend to get into a lengthy introduction. I  
think 1986 has been a year of recovery. I think we  
indicated last year at committee that many of the things  
that we were doing in terms of the reorganization, in  
terms of cost reduction exercises, in terms of market  
strategy, were paying off. We predicted at that time a  
cash loss of approximately \$5.2 million and, as you  
can see from the annual report, there was actually a  
cash profit of approximately \$2.6 million - a significant  
improvement overall. There are many reasons for that  
increased productive capacity at the mill, finally seeing  
the full results of the modernization.

However, we have, I suppose, still in place  
mechanisms to continue to reduce costs so that the  
cost of production and the cost of sales will continue  
to decline as they have year over year '85 over '86. I  
think 1987 stands to see even further improvements  
in the overall picture with a substantial cash profit in  
1987.

I should say that while the market has been fairly  
strong for particularly paper and the specialty craft

paper that's produced at Manfor, lumber prices are  
stable but still quite low, certainly by historical  
standards. The lumber prices currently are about \$210  
per 1,000 board feet. That compares to a high in 1979,  
early '80s, of approximately \$270 per 1,000 board feet.  
So we're talking about prices being substantially lower  
still than they have been historically and anybody who's  
producing a primary product is experiencing the same  
kind of problems, whether they're farmers or miners,  
or working in the lumber industry. The fact is that our  
lumber prices today are about 13 percent lower than  
they were a year ago.

Despite those problems, the efforts of the Board of  
Directors and staff and the unions have led to what  
you see before you, which is a substantial improvement.  
It's my hope that, with the continued cooperative effort  
of all concerned, we will be in a position to respond  
as a company should market fortunes change, so that  
we won't see the tremendous swings in the financial  
position that Manfor has experienced in the recent past.

Mr. Chairperson, I believe the chairman, Mr. Harvey,  
would also have some comments that he might want  
to make. So I would ask him to make them at this time.

**MR. CHAIRMAN:** Mr. Harvey.

**MR. M. HARVEY:** Yes, Mr. Chairman, I only have a  
couple of points to make to add to what the Minister  
said. With respect to the current loss of \$5.2 million  
net loss, we had budgeted - last year, I had told the  
committee I expected that to be about \$12.7 million.  
So the achievement there is considerably better than  
we had predicted.

Normally, the committee expects me to make a  
forecast for the current year. If you'll allow me the  
additional comments about the dollar changes and  
things that are beyond our control, our projections at  
the moment, given no major swings in those things,  
would be for about a \$3 million net profit in '87. Other  
than that, I have nothing more to add that he hasn't  
covered.

**MR. CHAIRMAN:** The Member for Arthur.

**MR. J. DOWNEY:** Mr. Chairman, in my opening  
comments that I'd like to make dealing with Manfor,  
I guess the first statement I would like to make is that  
I'm shocked that we would have a Minister of Education  
who has the kind of theory in economics that the current  
Minister has and the one that's responsible for Manfor,  
and the perception that he is again trying to leave in  
the minds of the public, that we have what is now  
perceived, or the perception they want to leave with  
the people in Manitoba, that we have a profitable  
company. If I go to the final page of the report, Mr.  
Chairman, the taxpayers have some \$255,639,809 in  
shares in Manfor.

As well, if one were dealing with what I would say  
an accurate accounting system for tax purposes for

any business person in the Province of Manitoba, or anywhere in Canada in fact were making out their income tax dealing with any business, they would definitely want to use the depreciation factor as a cost of doing business and is in fact allowed as an expense, and I think that a normal accounting practice would say what you would consider as a business expense. So to say that you don't have to use the depreciation factor against your loss, and you don't have to use the cost of \$255 million of actual investment in it, not the additional \$100 million-plus of loss that has been picked up by the province, Mr. Chairman, one could probably justify going publicly and trying to leave the impression that everything was okay, thank you very much.

I think, as well, we have to be thankful that there has been some turnaround in the markets in which the Manfor company have been selling into, particularly the paper market. The accomplishment that they have achieved, as far as getting a market for the paper that they're producing, and the fact that the market has gone up has helped them, I think is not so much a credit to Manfor as it is to the economic conditions probably supported to some degree in Canada by the Federal Government that we have. One cannot discount the kind of economic policies that have turned around some of the things that helps provide a profit base for the perceived profit base, we'll refer to it, that Manfor is putting forward.

So, again, Mr. Chairman, I say I'm shocked that the Minister of Education carrying the dual responsibility is again trying to leave that perception in the minds of Manitobans. I don't think it's a very good lead to show for an Education Minister.

I know that there are several areas that we would like to deal with. We've had for some several months now, Mr. Chairman, the public being led on. It goes back to sometime when we still had the former chief executive officer, I believe it was, leaving us with the impression that we would be selling Manfor. As recent as just several months ago, we had the Minister indicating that he had three opportunities or three interested people in the purchase of Manfor. The fact that there was a case in 1985, and I quote from an article, "There are at least two Canadian firms interested in buying Manfor or into Manfor," Sweeney told the newspaper. "I've been negotiating for some time with those firms."

They predicted, Mr. Chairman, that they would hope to have had the thing sold by the end of 1986. The Minister indicated last year that he was aggressively working with some individuals. I think it's time that the public was told who those individuals are. I think it's time that the Legislature is told what the policy of the NDP Government is when it comes time to getting rid of our Crown assets, the Crown corporation assets.

We saw the Flyer Bus sale, which was a massive loss to the people of the Province of Manitoba, run into the ground by the government, which was actually in a pretty reasonable position when they took over in 1981, Mr. Chairman. Does the government have a policy guideline when it comes to selling their major Crown corporations? We know that there is one Cabinet Minister and one backbencher who are extremely interested in selling some of the Crowns off. As late as this spring, the convention rejected, out of hand, their proposals to sell some of the Crowns.

It is an interesting situation that we're in, as far as the sale of it is concerned. One wants to make sure that the interests of the taxpayers are looked after and I don't have any qualms with the sale of it. In fact, we, as a government, were aggressively looking at the sale of it. The records show that. We understand and that's on the record. Who was interested in buying it? It was Repap, that was the company that was being negotiated with. I asked the Minister, what's the price, who is interested in buying, what are some of the protective mechanisms that are put in place to assure the taxpayers they're getting a fair deal?

I have a particular question at this point to Mr. Harvey, what is the current employment of Manfor at The Pas?

**MR. M. HARVEY:** Mr. Chairman, I believe it's in the order of 900, as at the end of March.

**MR. J. DOWNEY:** Are those jobs all sawmill jobs and pulp jobs or are they including the haulage of the timber to the plant?

**MR. M. HARVEY:** Those are all jobs, including the contractors.

**MR. J. DOWNEY:** What were the numbers of construction jobs that were carried out during the upgrading of the plant? How many were employed during that process?

**MR. M. HARVEY:** We don't have that data with us, but we haven't had any construction since 1985. I don't have the figure currently of what it was.

**MR. J. DOWNEY:** Okay, I note as well, Mr. Chairman, to the Minister, that he is indicating that any sale proposals the company would have to guarantee some 650 jobs. So is what he's saying, that he will allow them to drop the 650 from the 900? Is that what part of the agreement is or really what is the tentative proposal?

**HON. J. STORIE:** No, Mr. Chairperson, Manfor itself employs currently 683 people. The other people are haulers and contract people. So the 650 is probably an average of what Manfor has employed directly over the past number of years. So that figure represents Manfor's own people.

Just commenting on the member's, I guess, introductory remarks, we can through the history of Manfor again and again and again - the fact is that Manfor represents a significant investment on the part of the people of Manitoba. The decision was made, in effect, to contribute to that long before I became involved, long before this government became involved, and the member knows the history. What I have been saying since I assumed responsibility for Manfor is that we had to do three things. We had to reorganize, we had to upgrade the mill, and we had to create a financial situation for Manfor that made it possible for the company to survive.

Those things have been done. Reference has already been made at the committee this morning to the fact that the upgrading occurred, the construction was completed in 1985 and that created a particularly difficult situation in terms of our financial performance for 1985 and reflected in significant losses.

Since that time, we have done a reorganization. There were significant reductions over that period of time, including an additional 31 permanent staff reductions in 1986, 25 salaried and 5 hourly. That process continues. There is a joint union-management committee in place to continue to look at reducing our costs.

The exercise, since I have assumed responsibility, was get to a cash break-even position where there was no further inflow of money from the Province of Manitoba to Manfor. We, in effect, achieved that this year, or in 1986. In fact, the capital, which has been part of The Loan Act in the Legislature for many years, does not include capital for Manfor. We will be operating using our own capital to build roads, etc., in Manfor in 1987.

The fact is the last time we've drawn capital from the province was in 1985. In 1986, we drew some capital down, but it was approved in 1985. In terms of cash profit, we are going to make a significant cash profit next year. We have a small cash profit this year.

So in terms of the operations of Manfor, that was our first goal. The larger goal to return some money to the province by way of dividend to in fact start recouping the longer-term investment that Manitobans have made is obviously something that we're prepared to tackle now. I think we have taken it in a staged approach. We've gotten to Stage 1. We're at a position now where Manfor is no longer draining the Provincial Treasury, and the credit is due to the people who worked at Manfor, who have made a lot of sacrifices, who have gone through some difficult times. The investment is there and we believe that it's an important investment, not only for Northern Manitoba, but for the province.

We've talked for a long time, we've had many discussions and I'm sure other Ministers have debated with members opposite the nature of that investment and what the real cost was to Manitoba. I believe, and I think many people believe, that the benefits to Manitoba, including the \$33 million, \$34 million payroll, that Manfor represents, including the \$4 million or \$5 million in taxes that Manfor pays every year, the fact that it employs those people, benefits those communities and the spinoff jobs that occur because of Manfor, in fact would tell you that the costs have not been net costs at all, that there's been a net benefit to the province. We can debate that probably ad nauseam if the member wishes.

The fact is that the province has set the terms of any potential divestiture or involvement and participation of private sector companies in Manfor and they have been this - and I've said this publicly, on every occasion. We're talking about employment level guarantees, in other words, we're talking about maintaining relatively the same number of jobs in the area as currently exists. We're talking about a company that would be futuristic, that it had a longer-term commitment to The Pas and surrounding communities that are impacted by Manfor, and we would be looking for additional investment, product diversification.

So those are the goals. I said that one of the objectives when we started the upgrade in 1983 was to create a situation where Manfor was seen as viable, was a going concern, so that we would not have to get involved in a fire sale, which was what in fact was happening when the member opposite was in government and, even at that, there were no takers.

So all of those things have come together and I can indicate that there are now four individual firms who have expressed an interested - unsolicited I should say - in other words, they see an opportunity and believe me, as someone who has been involved in negotiations, that our position is much better today because we have done the difficult things at Manfor which members opposite failed to do when they were in power, that we will be able to recoup some significant benefit in the event that there is some divestiture joint venture, or whatever.

So I think that we've done things in the correct order and the credit again is due to the people who work at Manfor and the people who have made the tough decisions and stuck by them.

**MR. J. DOWNEY:** Mr. Chairman, all I'm trying to do at this point is to get some honesty to come out of the government in their reporting. I think that it would have been fairer if there would have been another page added to the report saying that the taxpayers are carrying a net loss of \$5,278,000 added to - and I would say a fair interest on the investment that we have in there would be 10 percent. So when you add the \$5 million that's shown as your net loss for the year, plus 10 percent on the \$255 million that is tied up, that you would have closer to a \$30 million actual loss or carrying charge for the people of the Province of Manitoba.

That would be a more accurate one, but one wouldn't be surprised when we look back at what the Premier had to say as to what their plans were. He made a lot to do, Mr. Chairman, in 1983, about the injection of cash and the injection of money to the upgrading, and I'll quote: "The Premier said that the plan will save up to 1,000 jobs and create several hundred." Well, we find out today that his objective, Mr. Chairman, was to keep 1,000 jobs. We found out that hasn't come about.

I think that's the nervousness that the public have when it comes to negotiating with anything that this government is doing, that the Premier doesn't know what's happening and he projects figures. He throws figures out for his political purposes and not for the best interests of the taxpayers.

Mr. Chairman, one would want to, on behalf of the taxpayers, and I say this to Mr. Harvey, Mr. Chairman, I think it's important that we find out if he is still prepared to live up to the commitment. Mr. Harvey, this was back in June of 1984. Mr. Harvey predicted that the operating deficit would be cut to about \$12 million this year, and the company will reach a break-even point by 1985. If the company shows profits, it will begin to pay the government \$4.2 million in dividends by 1986.

Well, according to Mr. Harvey and the government, Mr. Chairman, we're seeing a profit this year. I asked Mr. Harvey if there were any dividends paid in 1986 to the government by Manfor as was indicated? If there was a profit, as we're being told there is, has there been any payment made on dividends?

**HON. J. STORIE:** Just before the chairman answers that question, I think that the Member raised some questions about the employment that was going to be created by the construction.

I think it's certainly safe to say that the 200 jobs that would be created during the construction period were

created. The chairman has just indicated that some 905 people are employed currently - directly and indirectly - by Manfor in terms of its operation, never mind the spinoff. The fact that the investment was necessary is, I think, self-evident. The fact that Manfor still exists and, in fact, has succeeded in turning itself around is, I think, evidence of good judgment that was made in 1982, '83, to make that investment.

**MR. J. DOWNEY:** Just a response on that, Mr. Chairman. The First Minister said there would be 1,000 jobs - save up to 1,000 jobs. Well, I heard this morning, there are 638 at the plant and then that the spinoff ones are 900 and some, but there has been a reduction. There has been a reduction in the number of people.

The Minister all at once found out how many construction jobs there were. A few minutes ago, we didn't know. Now there were 200 construction jobs. The Premier, in his flippant way, was campaigning, saying that the plan will save up to 1,000 jobs and create several hundred during the construction over the next year. Well, 200, that's an understandable amount, but leaving the impression that there were several hundred jobs was somewhat irresponsible and that's the point that I want to make, Mr. Chairman.

Again, we've seen the Premier trying to leave the impression with the public that something is greater than it is, particularly him and his government. We're seeing the report today that is saying that they have not - they're showing, yes, it's in a lot more healthy position than it was, but let's not forget the taxpayers' money that's still there, carrying it. That we are paying interest on that money; that the former Minister of Finance sitting here had to go to the marketplace to borrow that money, to pay interest on it. They don't give money away. They charge rent on the money. Mr. Chairman, the point that I am making is - and I want to make it again - that it is somewhat misleading to the taxpayers to try and leave the perception that there isn't a cost to carrying Manfor, that there is a cost to it and it's a substantial cost. If you are using the kind of calculations that any normal business person would use, you have to use the depreciation as an expense.

I am sure that every business person, when they fill out their income tax, uses it as an expense to take it off their income. I'm sure that, when you go to borrow money, you have to pay at least 10 percent. There's over \$255 million; that comes to \$25 million in interest. So actually, if you had another page, you would truly reflect about a \$30 million carrying charge without the pickup of the massive losses that have been incurred to date. I'm trying to make that point, Mr. Chairman, with the Minister.

Again, back to Mr. Harvey, he's reported as having indicated that when they reached a profit stage, that in 1986, there would be somewhat of a \$4.2 million, I believe I said, payment back to the province as a dividend. We're now in 1987. Has the first dividend cheque flowed back to the province or is it going to flow in 1987? If so, how much?

**MR. M. HARVEY:** Yes, Mr. Chairman, through you to Mr. Downey.

In the first instance, I admitted last year that we were premature on our prediction of profit. This year, there

is no net profit in a sense that depreciation is looked after. You've already made that point, Mr. Downey. We can't pay a dividend until there is money over and above the company's actual needs.

In 1987, where I have predicted a \$3 million potential profit, the company would be in the position to pay dividends or recover some preferred shares at that particular time once the net profit has been realized.

With respect to interest, in the company's history, there has been a payment back to the government of something in the order of \$34 million in interest.

We made a point several years back of converting a lot of the deficit capital or the debt capital into share capital with the idea that would make the company healthier and able to pay dividends when profits were realized. But at this point, we haven't made a profit that we could pay dividends on. We would anticipate being able to make that decision in '87, if things go as we see them going.

**MR. J. DOWNEY:** Mr. Chairman, I just want the committee to know and the Minister to be well aware of the commitment that we felt we had when it did reach a profit position. So what really we've just found out is that it substantiates our position, that there really isn't a true profit in which anything can be paid back with the taxpayers' in dividends.

To the Minister, what kind of a deal is he negotiating? He's now indicated he's got four people who are interested. I again want to emphasize the Tory Opposition are not opposed to a sale. We have certainly made it clear when we were in government, made it clear since that, of some of the activities that they - I wonder if the Minister of Government Services would go and check and see if there is any PCB checking. They may be in his office. It might be more productive Mr. Chairman, to the meeting.

**A MEMBER:** Expecting him already.

**MR. J. DOWNEY:** I know, that's for sure and we'll continue to do so until we kick you out of office.

Mr. Chairman, the . . .

**HON. J. STORIE:** Mr. Chairperson, could we have some order in this committee?

**MR. CHAIRMAN:** I think we are civilized enough to have that order.

**MR. J. DOWNEY:** I think so, Mr. Chairman.

Mr. Chairman, I want to ask the Minister, what price is he placing on Manfor? He's got four people interested. At what stage is the negotiation? Is he going to auction it off? Is he going to hire a competent auctioneer and auction it off?

**HON. J. STORIE:** Do you know one, Jim?

**MR. J. DOWNEY:** Well, you know, I am a little facetious when I say that, but it is the kind of bidding process that you would go through if the former Minister of Finance knew anything about accomplishing and getting the top dollar for what the people in the province have. How is he doing it? Has he put it up for tender? How

he entertaining the offers? Who is scrutinizing them? Have they gone to Cabinet yet? He said he had four people interested. How is he screening them? Because we've been led to believe that this should have been accomplished by now; that, in fact, this was the process that we were going through some previous committee hearings. And at what price? Is he trying to recover the full \$400 million value that we've been told that we have there? Last year he agreed that it was \$350 million or \$400 million in plant. I go to the Hansard of last year which he made reference to the book value that was there . . .

**ON. J. STORIE:** Replacement value.

**MR. J. DOWNEY:** Replacement value of \$350 million or \$400 million. And I refer to page 88 of last year's Hansard, Mr. Chairman, when he said, the question was asked, "The Minister puts a figure of \$350 million or \$400 million on the operation, the plant. Is that a realistic figure?" The question was, "What all does that include?" The the Minister came back and said, "the buildings and equipment." Is that the price that he's expecting to get out of it or is he expecting to get what the share value is, or what is the process of selling it and what value is he hoping to achieve?

**ON. J. STORIE:** Mr. Chairman, I think the member can appreciate the fact that each of the companies have expressed an interest, and probably any additional major companies that express an interest have their own particular needs. They approach Manfor because, perhaps, there's a wood resource. They approach it because they're in sack Kraft paper. They approach it because they have some interest in diversifying existing products.

So, you know, I guess to answer the member's question, obviously we're looking for the best possible deal for Manitoba. The best possible deal for Manitoba includes substantial additional investment, substantial additional employment and a long-term commitment to use what is a provincial resource, and that is our forests in Northern Manitoba.

Having said that, the company also has to be prepared to live as a good corporate citizen, respecting the need for reforestation, maintaining our resource and protecting our environment. Negotiations with the companies will be based on their proposal, what they're prepared to offer Manitoba, to the extent that includes sale-divestiture in terms of the existing plant, that will be considered.

But the entire package has to be looked at. It's not simply a question of a dollar value for the mill, it's a question of the additional investment, additional employment, additional commitments to protect our resource, protect our environment and to support the activities in Northern Manitoba.

The expression of interest at this point has run the gamut. There is no fire sale. We are going to negotiate a deal which is in the best interest of Manitobans. Manfor is an asset and utilizing that resource is an asset for Northern Manitoba.

**MR. J. DOWNEY:** Does the Minister have a firm offer on his desk from any one of the four companies, at this point?

**HON. J. STORIE:** Yes.

**MR. J. DOWNEY:** The Minister indicates he has a firm offer. Is that a legal offer that he has the option to accept? Is there a time limit on it? Are there more than one offer on his table or just one at this point?

**HON. J. STORIE:** Mr. Chairman, I have indicated previously that I had received two proposals and they are the commencement of serious negotiation. When I and my colleagues are satisfied that we can structure a deal, which is in the best interests of Manitoba, Northern Manitoba, we will be presenting such a deal to members of the Legislature and to the people of Manitoba.

**MR. J. DOWNEY:** I want to be clear on this, Mr. Chairman. What type of an instrument has the Minister received from the people - a formal written offer, and for what period of time does that cover?

**HON. J. STORIE:** To my knowledge there is no expiry date. It's the commencement of serious negotiations.

**MR. J. DOWNEY:** So, he is saying that he has a document in his possession offering to enter into serious negotiations, it's open-ended from one company, and he has another company that's seriously interested. Or is he saying he's got a document which is entering into serious negotiations with two companies?

**HON. J. STORIE:** I'm saying that there are two companies who have submitted proposals which will form the basis for negotiations. They established some parameters for negotiations.

**MR. J. DOWNEY:** They have put forward some parameters for negotiations. In other words, there is a termination date as to when the offer or the intent to carry on with the serious negotiations, when that ends, is that correct?

**HON. J. STORIE:** No, I was correct. There is no time frame for a conclusion at this point, although I think I've indicated on previous occasions, and I indicated to the representatives with whom I met, that we are pursuing these in a serious way and that there will and have been further contacts following my meeting.

**MR. J. DOWNEY:** Mr. Chairman, are they basically - are they Canadian firms or are they out-of-country firms?

**HON. J. STORIE:** Canadian international firms.

**MR. J. DOWNEY:** Does that make them a multinational Canadian firm or a Canadian multinational firm?

**HON. J. STORIE:** Yes.

**MR. J. DOWNEY:** Yes to which question?

**HON. J. STORIE:** A Canadian multinational would be the most appropriate definition.

**MR. J. DOWNEY:** But they are Canadian based companies?

**HON. J. STORIE:** Yes.

**MR. J. DOWNEY:** How is the Minister dealing with the additional two interested parties? Are there any series of negotiations being carried out with those companies?

**HON. J. STORIE:** I expect that there will be. There has been contact and I expect proposals shortly.

**MR. J. DOWNEY:** This is a fairly major decision in heavy negotiations, Mr. Chairman. Has the Premier appointed any other Minister to be a part of the negotiating team with the Minister who is now responsible for Manfor, or who is on the negotiating team on behalf of the taxpayers of the Province of Manitoba?

**HON. J. STORIE:** Yes, there has been a steering committee. I have the involvement of other of my colleagues and a negotiating team is being developed, put in place to work on the details.

**MR. J. DOWNEY:** So, in other words, the Minister is saying, it hasn't been put in place yet but is being put in place.

**HON. J. STORIE:** There are people working on it and there will be some additions to it from various other sectors to strengthen it as we proceed into the more detailed negotiations.

**MR. J. DOWNEY:** Various other sectors meaning people outside of government?

**HON. J. STORIE:** Mr. Chairman, as the member can appreciate, the negotiations that are going on involve a whole range of interests on the part of the companies that are doing the negotiations, from the question of timber rights to the question of road access to the question, a whole range. Each of the companies, as I said, comes with a different set of prerequisites. All of those have to be explored. It will involve, from time to time, the involvement of my colleagues in Natural Resources, in Energy and Mines, in who knows?

**MR. J. DOWNEY:** Well, that's the question we want to get to. Who will be on the negotiating team? Who is in charge of making the decisions for recommendations as to how to proceed on behalf of the taxpayers in the selling of what is a major asset? Who is the negotiating team within government?

**HON. J. STORIE:** Mr. Chairperson, I've indicated that there are a group of Ministers, including the Minister responsible for Crown Investments, who will be the steering committee in terms of setting the policy for the sale, approving the terms, ultimately through the committee and Cabinet. The assistance that we receive will be from other internal sources and external sources, including legal and consulting services.

**MR. J. DOWNEY:** Mr. Chairman, I appreciate that there currently isn't one. I appreciate that there are currently

two offers made to the province, and the province has not yet firmly established who the negotiating team will be from Cabinet. I think it's somewhat irresponsible on the part of the Premier, particularly when this has been going on now for, what we've been told, over two years, of what must have been somewhat serious negotiations, and he still hasn't put a steering committee or a negotiating team of identifiable Ministers in charge of it. I'm astounded by the fact that kind of thing would be carried out without that already in place, particularly the length of time that it must have been . . .

**HON. J. STORIE:** It is in place. I just told you that it's in place.

**MR. J. DOWNEY:** The Minister is now saying it is in place. A few minutes ago he said, it will be in place. There is a major difference for the Minister of Education; there is a difference. I want to know who is in charge? Who is protecting the interests of the taxpayers on the negotiating team? I realize there is some confidentiality and you're in these matters, but we do have a major amount of taxpayers' money, we do have what the Minister is now leaving us to believe, a company - and it's not only the assets, let's remember that. There is a major resource base that we're offering the sale of, which -(Interjection)- he's now shaking his head no.

**HON. J. STORIE:** No one said anything . . .

**MR. J. DOWNEY:** Earlier, he indicated that was part of the deal, which it is.

**HON. J. STORIE:** That's an asset.

**MR. J. DOWNEY:** There's the reforestation and there's the harvesting rights, and the whole thing goes together, not unlike, Mr. Chairman, if you were negotiating a major aluminum smelter. They would want to have the assurance of power from a generating power that, if you were going to buy a timber mill in the Province of Manitoba, or a pulp mill, you would want to have the right to the resource to feed that mill, not unlike an aluminum smelter, Mr. Chairman, for the Minister's education.

**HON. J. STORIE:** We won't be selling them a part of our forests . . .

**MR. J. DOWNEY:** I think that he should look back at a little bit of history of his party and some of the irresponsible statements that they made.

He is, in fact, committing a portion of the resources of the people of Manitoba, that is over a long period of time. I think there's a point that has to be made there as well.

Mr. Chairman, I want the Minister to commit to this committee that we, as a committee, Members of the Legislature, because I appreciate he's got to talk to outside people and there certainly has to be an obvious movement of interested people throughout The Pas and throughout the offices, that at the first opportunity, in the interests of the Legislature and the Assembly, the members here, that we are given every bit of information necessary to make our opinions and our

decisions on behalf of the people we represent, as the Opposition, information dealing with the sale of the Manfor forestry complex.

Will the Minister commit to do that?

**HON. J. STORIE:** Mr. Chairperson, I believe I've already said that at such a time as there is an agreement, an understanding, as has been the practice, that members of the Legislature and the public will be aware of the details.

**MR. J. DOWNEY:** Mr. Chairman, will the Minister provide for us now any information dealing with the sale that is not in any way harmful to the potential sale? I'm not talking of numbers or that type of thing, but at least indicate who some of these companies are. I don't think that it has to be a national secret as to who - there can't be that many companies who are interested; there can't be that many Canadian companies that are Canadian-based who are in the business.

I would hope that the Minister would be very cooperative in providing information. It's only the proper thing to do and I want that commitment, to provide now the information that may be helpful to the public.

**HON. J. STORIE:** Mr. Chairperson, I have indicated that the individuals who have an interest are free, of course, to indicate that. I don't think I want to preempt their right to have such discussions held in confidence. I have no intention of negotiating this issue through the media or in any other public way. My responsibility, as Minister responsible for Manfor, and as an elected person, and as a Northerner, is to make sure that I can defend publicly, in any forum, any sale, divestiture, joint venture deal with respect to Manfor. I intend to structure a deal that I can defend and that is in the interests of Manitobans and that is in the interests of the people in The Pas and those people who work for Manfor.

When I have concluded such an arrangement, I will be prepared to offer all of the information pertaining to that deal and have a thorough discussion about whether in fact that was the right or the wrong decision.

I guess the people who I represent, some of whom work for Manfor, will then make the decision about whether in fact my decision was the correct one or the right one.

**MR. J. DOWNEY:** Mr. Chairman, that's the point I'm trying to make. I don't particularly want the people of Manitoba to be put in a gambling situation. There has been far too much hard-earned taxpayers' money frittered away by this government because they've made the wrong decision. That's why it's imperative that there be an opportunity to give the public, to give the Legislature, and to give those people who are in responsible positions the opportunity to make sure that mistake isn't made. That's the point I'm making. There are too many examples of mismanagement of taxpayers' money under his government. We don't want to have another one, Mr. Chairman.

I know my colleagues have some questions and I have some additional ones.

**MR. CHAIRMAN:** The Member for Riel.

**MR. G. DUCHARME:** Thank you, Mr. Chairman.

When I first received this particular report, it was Monday, along with other Members of the Assembly and, as far as I was concerned, usually this type of a report would take a week or so to go through, but because of the glossy type of report that we received, it only took a matter of hours.

However, my main concern as an MLA is the lack of information that was provided to us, that had been given to us in previous reports. - (Interjection)- It is; it's a glossy - that's all it is.

You take a look at some of the other information that we've received in previous years and it has at least given you examples of the expenses that occurred. The expenses have not been shown in this particular report.

Also a statement made by the Minister that this is not costing people, the taxpayers, any money. Well, what about the preferred shares of \$6 million? Then in '83, we also had the preferred shares of \$68.3 million along with the government grant of another \$4.9 million. In 1984 we had preferred shares of \$24 million along with a government grant of \$4.3 million - I just mention this for the record - totalling in the last three years probably around \$107 million. So, let's not try to fool people and say that this particular investment is not costing the taxpayers any money because it certainly is. I know myself, I'd like to ask the Minister, for instance, if he feels it's not costing the taxpayers any money, what does he feel we paid that last preferred share with? It says right in the statement. We certainly didn't pay it with banana peels, we paid it with \$6.3 million.

My other concern, going through this particular report was, it just bothers me that maybe we've come back to some more creative accounting that we've been known to see around this table in the last little while without giving the taxpayers detailed information and they just don't seem to give this type of information. For instance, if you want a source, we'd get on the expense sheet in here - two lousy lines. Before 1983, he had four pages listing the expenses that were applicable and we don't have those now and that's what really bothers me is a person who has to sit here and make the judgments, who has to make the judgments for everybody else. It doesn't mention in this particular report, in the expenses and salaries, the maintenance, for instance, example of how much Manitobans pay for their insurance or any communications. It doesn't show that there.

Mr. Minister, I think the taxpayers really should get more information. We should get more information. Especially, I think you should probably learn from the experience you had with MTX and MPIC and sadly the Workers Compensation, that they want this type of information. They want this information and I hate to keep using the word because it's used so many times before and it's just another socialist cover-up. That's almost what you get from this type of a statement. It gives you that feeling that you don't seem to want to give that information to us. I know as a businessman, and a small businessman, and I get a chance to read a lot of statements, it bothers me that you, as a Minister, would accept this. If someone had presented that to me, I'll tell you, Mr. Minister, I wouldn't have accepted that.

The only thing I can tell you about the total report is that it's blue in colour. I like the colour. But other

than that, I can tell you, Mr. Minister, that I know my constituents from Riel have hounded on me time and time again - they're tired of not getting that type of information. I'm just coming from that direction. I wasn't going to appear at this committee, but I'll tell you that, if this information is not coming forward, I know that I myself personally will be asking many questions in the next month. I know this committee is not going to probably last that long, so I will take the opportunity that's addressed to me to ask those questions on the floor.

Just to give you some information, one quick question that I have today that concerns me and maybe you could explain to me - and I've tried to gather the information in a short period of time that I've had since Monday and I was able to gather up some of the statements in previous years, to gather up probably some of this information that was reported by your administration. For instance, when you mention in here the \$59 million that was written off from the original CFI, is that \$59 million, for instance, why, when you receive the \$3 million credit - it's from the same amount of money - is it showing up in your particular operating deficit? Could maybe, because I would like to know that, because it does mention that preferred share - (Interjection)- yes, and that's just one of the information I've picked up.

**HON. J. STORIE:** Can I just touch on the member's preamble? The fact is that the form that you see, the financial report in this year, is substantially the same as any financial report of any large company. In previous years, there has been another level of detail, but I want to point out to members that Manfor is not run by committee. If members want information, additional detail, and certainly they're free to refer back to the way we have presented the information, we're certainly prepared to answer any and all questions. The fact of the matter is that the Provincial Auditor allowed us, suggested, that this was in fact the appropriate form in which to submit the financial statement for 1986. So the financial Auditor doesn't have the same problems as the member for Riel seems to have.

There is no magic to the numbers that you've had in previous years. The numbers relate to decisions that Manfor officials make as company officials. If you feel somehow you need those for your information, I'm sure that we're more than happy to give them. Frankly, I don't know that they've been much value to you or will they be of much value to you. They are of obvious importance to the company and the management and the board of directors, as they make decisions for this company. I accepted the audited statement. I believe the Provincial Auditor has no problem with the way it's presented. I think it's factual and it represents the current financial position of Manfor. I don't know what more we need.

**MR. G. DUCHARME:** First of all, Mr. Chairman, I'll wait for the answer to the \$3 million, but the Minister has made a statement that the Auditor doesn't require this type. He has this information; we don't have this information, I mean in a statement such as this. If you want to start going through the statement line by line and refer it to like they did in 1983-84. We don't have

that type of time to do that. But that's all I'm asking. I'm asking that there has been information provided other than a one line covering expenses, or a two-line covering expenses in previous years. I mean, after all, it is my job, as a member of the Opposition, to understand this statement. Maybe the Minister is saying to me, indicating that I haven't got the knowledge to go through the statement. I'm not saying that. I'm saying that in practice, if you're gather an information statement, you do have information that you can gather as a result of that statement.

In this particular case, you weren't providing it, that's all I'm saying. I don't think it's fair when we're dealing with a large company that's being funded to the tune of over \$100 million to say, well, hey, this is a statement like any other corporation. You're in a different system. I don't have to explain to you that you're in a system where you're more vulnerable for the people to ask these type of things. But I think that when you provide in a statement on a corporation such as this, that more information be provided.

**MR. M. HARVEY:** Mr. Chairman, I'd like to answer the question. I would also like to make the comment that this annual report serves a number of purposes, not all of which are contained in here. It's picked up by our marketing department. It goes to our customers. What we tried to do was put together a report that was standard to the industry, if you like, what kind of reports our competitors put out. There is a certain amount of danger in saying too much in a financial statement with respect to the ability of competitors to build up costs. But that's the reason for the change in format, trying to get a report that would be similar to the people who are in the same business.

Now with respect to the \$3 million, if he would have turned to the Auditor's comment, he would see that he qualified the report -(Interjection)- okay. No, I'm looking at the Auditor's comment in the front of the report, in the front of the financial statements where he says, he makes a qualification.

When the company was incorporated, there were a certain number of dollars that were set up called "Research and Development Costs." They were costs incurred prior to the existence of Manfor. We argued that these costs should not appear on Manfor's books and that they should be taken out. He agreed eventually to take what was left out, which was the \$5 million that he's qualifying here. But it had to appear in Manfor's books when he took it out. The qualification he makes was that he said it should appear in the Statement of Operations for 1985. We disagreed because we said, first, it didn't belong to Manfor; secondly, it had nothing to do with the operations in 1985. So he qualified that

This year there was a recovery, if you'll remember from a lawsuit. I should tell you that the understanding at the time was that, if any money was recovered from lawsuits, it would go back in through that way. He did not indicate that he wanted to see that in the Statement of Operations which, if we had gone the route that he qualifies, it would have reduced the operating loss this year to something in the order of \$2 million. What it really is, is old money that is being put through the Manfor books as it's moved out.

The \$5 million last year added to the operation deficit as they wrote off the research and development costs:



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that occurred prior to Manfor's existence. This year, there was a recovery through the courts of \$3 million. That too went into the Statement of Operating Deficit and reduced the operating deficit by \$3 million.

**A MEMBER:** But it is part of your \$59 million.

**MR. M. HARVEY:** Yes, right.

**MR. J. DOWNEY:** Mr. Chairman, the Minister, a year ago we were talking about the - I'm not sure of the name of the building that was being negotiated with the company doing some rework - the Bertram Building. What is the current status of the building? Is there a company renting it, leasing it? Is it for sale? What is the current status of it?

**HON. J. STORIE:** Yes, Mr. Chairperson, we have worked out a lease arrangement with a company called Ecolaire, who are in the process of creating about 70 manufacturing jobs in The Pas. That company has a five-year lease on the building and, as I say, will be involved in heavy metal manufacturing and creating approximately 70 additional jobs.

**MR. J. DOWNEY:** Mr. Chairman, what is the cost of the lease and is it a subsidized lease in any way? Is there any other government money going to support the work activity that's being carried out there?

**HON. J. STORIE:** The arrangement that we have includes provision for this particular company to do work for Manfor. The lease of course is offset by the fact that the operating costs of the Bertram Building, which was not in any way fully utilized, have been eliminated for the long term and reduced for the short term.

**MR. J. DOWNEY:** I asked the Minister if it was a subsidized lease and what the return on the lease is for Manfor.

**HON. J. STORIE:** Mr. Chairperson, I guess if I could just outline the conditions of the lease, the answer to your question is, yes there is, in effect, a reduced rent level. It's a five-year lease on the building at a rent of \$1 per year.

Mr. Chairperson, I think I've indicated that the cost to Manfor was \$250,000, so it represents a saving in that respect. Obviously, there are not many people in Manitoba, in Canada, who are interested in leasing that facility. In the first year, the overhead costs are shared with Ecolaire. Ecolaire will pick up 100 percent of the cost in the following years.

The annual overhead costs have been estimated at approximately - I gave an incorrect figure. It's not .25 million, it's \$355,000, it's estimated. There's a three-year lease on the machinery and equipment. Of course, Ecolaire has agreed to continue with a maintenance contract to make sure that our work is done on a priority basis and so forth.

**MR. J. DOWNEY:** Mr. Chairman, the Minister indicated the first year Manfor is sharing the cost of the carrying charges of the building. Is it a 50-50 arrangement on the \$355,000.00?

The second question dealing with that, Mr. Chairman, he said that we are leasing equipment to them. What is the value of that lease?

**HON. J. STORIE:** Mr. Chairperson, in the first year, Manfor is occupying part of the building when there is that cost-share.

The equipment, of course, are the blades and other equipment that's in the Manfor, the crane and so forth. There's a three-year lease. The only benefit to the company is the first access for their own work.

**MR. J. DOWNEY:** Mr. Chairman, I understand, if I'm clear on this, that we are leasing the building for five years, of which it's \$1 a year to Manfor. We are sharing in the cost - and I don't see the direct cost. I don't know whether it's a depreciation factor. I don't know what the cost of carrying the building is. Are they including the depreciation value, or are they including heat and light? I mean, a \$355,000-a-year carrying charge on a building seems rather exorbitant, particularly when we are getting a report that's, for certain purposes, making the company look - what they see - relatively good. Now we're getting the report on the lease that they have arranged, that the cost of carrying that building is \$355,000.00. We're renting it out for \$1, which is supposed to take that \$355,000 off the back of Manfor.

What all is included in the cost of carrying that building at \$355,000.00? What type of expenses are they including in that cost?

**HON. J. STORIE:** Mr. Chairperson, I don't know whether the members had a chance to view that building. It is probably the largest facility of its kind in the province, probably in Western Canada. It's not a small operation. The costs are the operating costs: heat, light, maintenance, insurance, the whole range of costs.

So in effect, what you are talking about is a saving of approximately \$1.5 million for Manfor because we have never used the full building. In fact . . .

**MR. J. DOWNEY:** Mr. Chairman, is the company that is renting it getting the full use of the shop and the equipment that's in there for the \$1.00 a year. That's really what the . . .

**HON. J. STORIE:** Yes.

**MR. J. DOWNEY:** Oh, okay.

**HON. J. STORIE:** Only for three years for the equipment.

**MR. J. DOWNEY:** But there is a substantial amount of dollar value. What is the value of the equipment that is being leased to them? What is the value of the building, and what is the value of the equipment that's being leased?

**HON. J. STORIE:** Mr. Chairperson, I think that the original value was something like \$500,000.00. I'll get an updated current value.

**A MEMBER:** The biggest building in Manitoba you built for \$500,000.00?

**HON. J. STORIE:** No, that's equipment.

Mr. Chairperson, I'll let the president answer or the chairman answer that question; he's got the information.

**MR. M. HARVEY:** Mr. Chairman, the company has been carrying the building on the books written down to \$500,000.00. The market value of the equipment is probably more than that, but difficult to determine. The equipment is approximately 15 years old. The building, I would assume, was worth a lot more than that when it was constructed. It was designed to - the original plan of Churchill Forest Industries, and Bertram and Sons was to build a manufacturing facility for pulp mill equipment, something that never transpired, so the company took over a building that was not being used except for a small portion for our own maintenance.

I don't know what the original costs of the building were; they would be more than that, of course.

**MR. J. DOWNEY:** Well, the bottom line is that, however you cut it, there is a major subsidy going to the 70 jobs that the Minister talks about. That's really what it is. It's a major subsidy. I still could not support or understand that it cost \$355,000 to carry a \$1 million building, equipment and building, \$500,000 worth of equipment and a \$500,000 building. A \$355,000 annual carrying charge is totally inaccurate and I would think that there is some creative accounting. - (Interjection)- Well, Mr. Chairman, the Minister talks about insurance. I can tell him that probably a \$200,000 building would cost a premium of something like \$2,500 or so. I mean we've got his insurance man sitting right here.

**A MEMBER:** I wouldn't get involved in this.

**MR. J. DOWNEY:** He wouldn't get involved in it; no, that's right.

There are certainly some inaccuracies here that I think need further review, and then I would hope that the Minister would give us a little more explanation. The question I asked as well, are there any other government grants or programs supporting the company that have leased this building?

**HON. J. STORIE:** Certainly not from me. I don't know whether DRIE has any money in it or not.

I just want to point out that, you know, the member talks about the value. The Bertram Building has been sitting empty since the members opposite negotiated its existence in 1967 to '69. The fact is there are - and I have indicated this - very few companies in North America who could take advantage of it. So it was going to be a cost for Manfor for the foreseeable future. What we've done is negotiate an opportunity for 70 additional jobs, plus saving Manfor \$1.5 million.

That doesn't sound like bad business to me. The facility exists. I can't wish it out of existence simply because it's there and it's a sunk cost, if you will. It exists.

This is a way to create employment then and eliminate the operating cost to Manfor.

**MR. J. DOWNEY:** Mr. Chairman, there is an inaccurate statement, I'm sure, on the record, and the Minister wouldn't want it to be left, that it costs \$355,000 to

leave a building sit idle with .5 million worth of equipment, a .5 million building, that it costs \$355,000 to leave that building unused, sitting there. With security hired and everything else that figure is so out of the realm of possibility that I think it should be corrected. I'm not going to sit here and accept that kind of a number.

If that's the case, then we want a complete list of what the costs are that are into it.

**HON. J. STORIE:** Mr. Chairman, I think the member knows that in fact the replacement cost of that building is substantially more than the book value. The taxes, for example, are \$100,000 for that building. Insurance, I am told, is somewhere in the neighbourhood of \$180,000.00. Then we have heat, light, maintenance, etc. So the \$355,000 is certainly, while perhaps not an understandable figure, an accurate one.

**MR. J. DOWNEY:** Is the company that is leasing it paying the taxes on that property?

**HON. J. STORIE:** Yes, Mr. Chairman, I have indicated that the overhead costs, which include those taxes, would be paid by Ecolaire after the first year.

**MR. J. DOWNEY:** Mr. Chairman, the wage settlement last year, and I want to touch on it briefly, I compliment the workers at Manfor for what I would say was the right thing to do. In fact, looking back at last year's committee report, or the activity of committee, there was a comment made that possibly that would be one of the options that should be looked at would be to maintain a wage and not push for an increase because of the fact that the job they had was extremely important to them and that the taxpayers shouldn't be called upon to go further in debt or put more money into it to give a wage increase at that particular time.

I say to the workers there, I appreciate their attitude and the fact that they have shared in making sure that the building was going by not pressing for an increase.

However, I saw somewhat of a concerned comment coming out when management, and I understand that management had not had an increase in salary or wages from the period 1984, was it, that they had withheld their increase. However, I thought that there might have been a better line of communication in place with the placement of workers on the Board of Directors of Manfor. Why was there such a shock when this took place? I understand that there were great compliments passed back and forth about the placement of workers on the Board of Directors, and yet when this kind of thing happened, it was such an outstanding shock.

I'm wondering if Mr. Harvey could comment. Was there a breakdown of communication between management, and is the fact that workers on the board that really hasn't accomplished anything to any great extent?

**MR. M. HARVEY:** Mr. Chairman, I think it has accomplished a great deal. There are some difficulties with workers on the board who have to deal with conflicts of interest, in the sense that we've had to devise ways of dealing with things that don't exist on other boards. We ask our workers, for example, to excuse themselves

when we're negotiating for their packages. I think the difficulty that you're referring to, though, came from a practice that we had engaged in on the board in having a subcommittee of the board deal with compensation for staff. So the whole board was not involved in the negotiations at that time.

Because there was that breakdown in communication, what we have since moved to do is made the Compensation Committee a committee of the whole, so that all members are advised, although the full board knew that there had been a budgeted figure for staff salary increases of the amount that was essentially paid.

**MR. J. DOWNEY:** What was the percentage increase that management received in their wages?

**MR. M. HARVEY:** The average increase was 4.5.

**MR. J. DOWNEY:** 4.5 percent over a year-to-year basis, over the period of '84 until the current time?

**MR. M. HARVEY:** It was 4.5. That was the only increase they got since '84.

**MR. J. DOWNEY:** Mr. Chairman, I have another question or two I would like to ask of the Minister. I know my colleague had a question dealing with reforestation and I'm just wondering, could the Minister indicate what is the current - or Mr. Harvey, I guess, in view of the fact that I can't refer to where the Minister is.- (Interjection)- He's out checking for PCB's, Harry.

**A MEMBER:** Somebody's got to do it, Jim.

**MR. J. DOWNEY:** That's right; you aren't.

The fact, Mr. Chairman, that we had updates on the reforestation program, what currently is Manfor doing as far as reforestation is concerned, or is it totally up to the government to do it under the Natural Resources program?

**MR. M. HARVEY:** Mr. Chairman, some time ago - I believe it's in excess of two years ago now - Manfor signed an agreement with the government that would essentially require us to do the actual planting and reforestation. The government undertook to provide the seedlings from their nursery at Clearwater.

We are currently planting all stock as it comes out, and I think it will be another year, if I'm not mistaken, perhaps another two years, before there is sufficient stock available to replace the annual cut. That's our target. Our initial target is to be able to replace the annual cut as we take it out, and then there is, of course, some backlog.

Prior to the 1983 agreement - no, it's not that far back, it must be 1985 I would think - the responsibility was with Resources. We had asked that we be involved directly in doing it in exchange for some considerations on stumpage fees. There is some scarification takes place, as well, but that is our target anyway to get to the point first that we can replace the allowable cut in each year. Not the allowable cut, sorry, the cut.

**MR. J. DOWNEY:** Mr. Chairman, what does the province pay; what does the Department of Natural Resources pay for the replanting on a per tree basis?

I'll explain the reason I'm asking this question. There has been a policy in the past in the Channel area for Channel Area Loggers where they were, in fact, hiring the local residents to replant, reforest at 24 cents a tree, and they have taken that away from the Channel Area Loggers, the government, and have now tendered it.

I'm just wondering what type of an agreement is there between Manfor and the province vis-a-vis the same kind of a program that was carried out by Channel Area Loggers.

**MR. M. HARVEY:** Our agreement calls for us to pay for the planting of trees, and I don't have the price per tree that we pay. It is contracted out; local people do it.

**MR. J. DOWNEY:** That's the point. In other words, Manfor does pay for the replanting to the province, there is a cost to them, and it is local employment. It is done by Manfor with local residents?

**MR. M. HARVEY:** Yes.

**MR. J. DOWNEY:** How are they doing, as far as the harvest replanting ratio? Are you able to maintain an increase in reforestation, or are we in a net loss?

**HON. J. STORIE:** Mr. Chairperson, we are currently at 56 percent in terms of replacement. That will be 80 percent for the following two years and 100 percent by the year 1990. The increase in trees, year over year, another 400,000 will be planted this year; an additional 600,000 the following year, in 1988.

**MR. J. DOWNEY:** I thank Mr. Harvey, Mr. Chairperson, for that information.

Does Manfor, at this current time, have any extravagant programs or policies or membership in golf clubs in Montreal for any of their managers or top executive staff, allowing them to buy cigarettes on their expense accounts? Is there anyone in that current position? Is that still a policy of Manfor?

**HON. J. STORIE:** Mr. Chairperson, I don't mind the member asking the question, but the cheap shot about the purchase of cigarettes, which has been explained, it was an accident, and really does a disservice to an individual who came and did his best - really unkind, unnecessary. The acting president has no such perks.

**MR. J. DOWNEY:** Well, Mr. Chairman, the Minister may take it lightly, but I can tell you, the taxpayers who pay taxes to carry the Manfor forest complex and want to see the thing get on its feet, and every workers that had to take a cut in pay, I'm sure, did not like it to have to do that to make sure that their job was maintained and the plant survive. I think the government was totally irresponsible in allowing such a carry-on to take place. The criticism certainly isn't of Manfor or anyone but the government for not having control of the affairs of the people of the Province of Manitoba. It isn't unlike everything else they're doing. They can't run it, Mr. Chairman; they don't have the ability.

**HON. J. STORIE:** Mr. Chairperson, just before the chairman comments on that, the member is referring

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to a contract that was signed in 1983 and expired in 1985. I've given the member - in fact, the members opposite have a copy of the contract with the immediately previous president, Mr. Chairperson, and I've indicated that there are no such additions.

The member also knows that when he was government, and that other governments from time to time, when they have had to arrange contracts for senior executives, for senior officials, that the terms that were referred to were not unusual and the perks that were referred to are no longer part of the hiring practice at Manfor or any other Crown corporation.

So he is reliving history and interpreting it, I guess, for his own purposes and he's free to do that.

Mr. Chairman, the chairperson of Manfor would like to . . .

**MR. M. HARVEY:** Yes, Mr. Chairman, I would like to advise Mr. Downey that at present we don't have a president. We are looking for a president. I have had some work done by a consulting firm for me for two purposes: one, to try and establish what the wage rates might be that we might be faced with for that job; also, to indicate to me what kind of perks people at that level were getting from the industry generally.

What we've done as a board policy is to try, wherever possible, to convert these kinds of perks into the direct salary of the individual. That isn't always possible because of their tax positions, but we do not pay for, and do not intend to pay for, any club memberships. We expect that the two standard ones that we won't be able to avoid is the matter of housing at The Pas and a car.

**MR. J. DOWNEY:** Mr. Chairman, there are not too many more questions that I have dealing with specifics of the report or the employment, but I do want to say to the Minister, who is responsible for negotiating, which is a very major deal for the taxpayers of Manitoba, that I would expect that the full reporting to this committee take place at the most appropriate time, as soon as possible, all information in detail as to the carrying out and the offer that is being accepted or the negotiations at the stage that they're at. It's imperative that we have that kind of information made available to us - Letters of Intent to enter into agreements and that type of thing.

I would also ask the Minister, and I'm sure he could give us some range as to the dollar value he expects to get back from the sale of Manfor. I don't want to get into the fact of he's going to say, well, there's the resource that we have to be concerned about.

I still want to reiterate the point I made earlier, dealing with the resource, that he can't have it both ways, and he'll be in some difficulty. He and his government, I say, carried out a very irresponsible approach when the negotiations were taking place between the Alcan Aluminum Company and the use of a hydro plant.

The sale of Manfor demands that there is a resource made available for the operation of that Manfor plant. They have to give some long-term commitment for the people's resource, namely the woods and the forest. There has to be a long-term commitment.

I can tell you that the Opposition isn't going to be as irresponsible as the New Democratic Party was when

it came to the disallowing of hundreds of jobs in the Province of Manitoba with the use of a resource in creating employment here.

I can tell you, Mr. Chairman, that's the difficulty that the people have with people like the current government who are trying and should be carrying out responsible activities. They aren't responsible, Mr. Chairman, when it comes to the overall negotiations and when something good for the province is being worked on.

We are responsible, Mr. Chairman, and I am asking the Minister to provide us with as much detail; I am asking the Minister to tell us now, today, a range of which he is proposing to sell the Manfor forest product. He can give us, surely, some kind of a dollar figure that he's considering.

**HON. J. STORIE:** Mr. Chairperson, I could certainly throw out a ballpark figure.

**MR. J. DOWNEY:** That would be appreciated.

**HON. J. STORIE:** The problem, of course, is that the nature of the negotiations and the varying interests of these companies really precludes that being a realistic exercise.

If a company was to come to Manitoba and say we are prepared to construct four plants and create 2,000 jobs, the price might be substantially different from a company who said we are going to take over the existing operations and expand by adding a pallet manufacturing plant on the existing site.

I've said that the package has to look at the additional dollar capital investment, additional employment opportunities, best and highest use of the resource, all of those things together. I have indicated, and will undertake to make sure that this committee has access to all of the details, subject to any agreement, that you will understand what we have accepted as an offer and what the benefits are. Obviously, we will be free to react and respond to that.

I appreciate the member's comments about the importance of this resource. It is an important resource for Northern Manitoba. There is no intention of doing as the member suggests, and that is selling a portion of our forest as the members were prepared to sell a portion of our hydro resource. What would have happened is that X number of years from now we would have been in a position, or potentially, of having to purchase that back at 10 times the value, and we won't be doing that, Mr. Chairman.

**MR. J. DOWNEY:** Oh, come on, Mr. Chairman, that's a totally irresponsible statement.

Mr. Chairman, that was the point I'm making. He's supposed to be a responsible member of the Legislature and a Cabinet Minister negotiating in the best interest of the province. To make such an irresponsible statement is totally uncalled for. It was not the way the Minister just said it was; it was, in fact, negotiating a responsible use of the plant. It was not, Mr. Chairman, putting the taxpayers in the position of having to pay for a plant for 10 times the value - absolutely a ridiculous statement.

I will look forward to the provision of the information that he committed to this committee just in his last

statement, Mr. Chairman. He and his government will be watched very closely in the handling of this affair.

Thank you.

**MR. CHAIRMAN:** The Minister of Government Services.

**HON. H. HARAPIAK:** As the Member for The Pas, I would like to make some comments on this annual report.

I would like to compliment the Minister for the leadership that he has given this corporation. I'd like to compliment the Board of Directors for the cooperative leadership they have provided for unions, both the IWA and the CPU, for the leadership. They have made some real responsible decisions in making sure that Manfor remains a viable operation. I think they made some responsible decisions in the area of reforestation and in the running of the whole corporation. I think they've really given us good direction and I'm looking forward to taking part in the future of the responsible way that they are going. I think they've given us good direction.

**MR. CHAIRMAN:** The Member for Portage.

**MR. E. CONNERY:** I'm wondering if we can get a copy of the overhead expenses of the Bertram Building that are going in. Capital tax is part of Manfor's expense.

Is the capital tax part of that \$355,000.00? I'd like to get a breakdown, and I know you don't have it all today, but if the Minister, in the next week or so, could provide . . .

**HON. J. STORIE:** I will undertake to provide the member, individually, with that information.

**MR. CHAIRMAN:** The Member for Lakeside.

**MR. H. ENNS:** Thank you, Mr. Chairman. I just have one area of concern that I bring up at this time.

The forestry operations generally across the country are under growing scrutiny for making sure that sufficient reinvestment into the primary resource is being made. I'm talking about the reseeded programs; I'm talking about better husbandry of our forestry resources. I would want to know what Manfor's track record is in this respect relative to industry standards established right across this country.

Is Manfor dedicating back to the forest lands an appropriate amount for reseeded and improvement purposes?

**HON. J. STORIE:** That question was dealt with. One of the members raised it.

The current situation is that Manfor replaces approximately 56 percent. That will be increased by 1988 to 80 percent, moving to 100 percent replacement by the year 1990. I can't comment on how that is comparable across the industry, but I think the commitment of the company to reforestation is solid and necessary.

**MR. H. ENNS:** Mr. Chairman, I apologize if the issue had been raised earlier during committee.

Just one final question. I'm aware that there are different federal-provincial programs involved. I'm

aware of the Department of Natural Resources' involvement in this question.

More specifically, what is the amount of reseeded that the Minister refers to? Is that being carried on at Manfor's expense or is that inclusive of various other public-funded programs?

**HON. J. STORIE:** Mr. Chairperson, that's currently a joint responsibility of Manfor. Funds are made available to the reforestation effort through the Canada-Manitoba Forestry Agreement.

The number of trees planted in 1987 will be 2.4 million; that's up approximately 400,000 from the previous year.

**MR. H. ENNS:** Thank you, Mr. Minister.

**MR. CHAIRMAN:** The Member for Morris.

**MR. C. MANNESS:** A short question to Mr. Harvey, Mr. Chairman.

On the payroll of Manfor, are there any employees who are giving of their time, who are not directing all their efforts to the business of Manfor? In other words, are there any provincial employees who have been seconded? Is there anybody on the payroll who is doing work for the Provincial Government in any fashion, but is being paid by Manfor?

**MR. M. HARVEY:** There are no full-time employees of Manfor who are working at any other employment that I am aware of, and there are no provincial employees working for Manfor that I am aware of.

**MR. C. MANNESS:** Are there any expenses of government presently that Manfor is including within their set of books that would be more properly accounted for under a department of government?

**MR. M. HARVEY:** Not that I'm aware of, no.

**MR. C. MANNESS:** Thank you.

**MR. G. DUCHARME:** Yes, just one question.

In regard to the Manfor operation, it's mentioned in the report that the ". . . free trade environment . . ." has triggered the creation of a company business strategy that has transformed Manfor from a domestic market oriented firm into an internationally competitive exporter."

Could the Minister tell us to what extent his total amount of sales were outside of Manitoba, and what amount of sales, of his volume, were outside of Canada? Maybe he could compare that to, if it has triggered, because in 1983 your total sales, I think, outside Manitoba were \$475 million of total sales of \$550 million.

I'm wondering - have we done so much better in 1985 that we triggered this, because in past years our total sales were almost our full volume of sale? I was wondering why this type of comment was made, that we've now triggered this type of . . .

**HON. J. STORIE:** Mr. Chairman, an increasing portion of our production, both paper and lumber, is for export. I guess in terms of the free trade environment, Manfor has in effect been operating in a free trade environment

since the final stages of the removal of the GATT 15 percent - General Agreement on Tariffs and Trades - was removed. I believe the last part of that was removed in January.

The only complicating factor has been the additional 15 percent surtax.

Other than that, our strategy has been to look beyond the boundaries of Manitoba largely because that is where the market is, particularly, for the next product that Manfor is producing as a result of the upgrade.

**MR. G. DUCHARME:** What would be our total volume outside of Manitoba of our total sales?

**HON. J. STORIE:** Approximately 75 percent. If you combine pulp and lumber, approximately 75 percent of the total.

**MR. G. DUCHARME:** How much of that would be to the United States?

**HON. J. STORIE:** The vast majority.

**MR. G. DUCHARME:** How much of it would be to any other parts of Canada?

**HON. J. STORIE:** About 40 percent, in total, of both lumber and pulp and paper would be inside Canada but outside Manitoba.

**MR. G. DUCHARME:** Thank you.

**MR. J. DOWNEY:** Mr. Chairman, just a general comment, and I expect a response from Mr. Harvey or the Minister.

Probably we're seeing one of the biggest areas of forest fires in all of Canada. The news reports daily that we are seeing our resources in a serious situation.

How does the Manfor complex and the whole business of conservation of our resource, and the protection of it, what type of impact is this whole thing having at this particular time on the industry which we're talking about here this morning, the forest and forest products?

**MR. M. HARVEY:** Mr. Chairman, through you to Mr. Downey, directly of concern to us at the moment - this was as of yesterday - there were no fires of concern to Manfor, but I would imagine that the situation on the east side of Lake Winnipeg would have a real devastating effect as far as Abitibi is concerned.

I have a fire report here. There have been 15 fires this year. Only one fire remains burning. The largest one is in the northwest region, in the Crossing Bay, which is about 500 acres in size. Again, I have to tell you that this is May 11 when this was written. That's over by the Moose Lake operation. Crossing Bay is on Moose Lake and there are some fairly large stands of saw timber in there.

It's a very serious situation. The bush is extremely dry. Anything could touch it off, a thunderstorm or a match, but we haven't yet been put on the alert to pull out by Resources. We would probably stay in even if the tourists were pulled out. The situation is very critical at the moment.

**MR. J. DOWNEY:** Mr. Chairman, in fact, what Mr. Harvey is saying, that the prolonged drought and critical fire condition that we are facing could have a major impact on the Manfor operations. If, in fact, there was a prolonged period of dry weather and concern over the resource, it could have a major impact on the overall operations and the kinds of numbers that we've talking about earlier could in fact have a major impact.

Thank you, Mr. Chairman.

**MR. C. MANNES:** I'd like to ask Mr. Harvey, given the fact that we've had the Americans bring forward a major countervail, which was a major issue through the past year, and given the fact, as has been indicated, that such a significant share of the revenue of Manfor is derived from sales of product to the United States, and also given that the Provincial Government has certainly vacillated all over the ballpark with respect to free trade, I ask Mr. Harvey: Has the Provincial Government taken a strong enough side on this issue of free trade? Are they ensuring the security of the American market through their public statements?

It seems to me, Mr. Harvey, as a senior official with Manfor, the best thing that could occur for this particular Crown corporation is that our government comes out strongly in support of free trade in all respects.

Has the government done that to your satisfaction?

**MR. M. HARVEY:** I can't comment on what the government has done, except to say that anything that impacts on Manfor with respect to how the agreements between the United States and Canada are of concern to us, we have experienced a 15 percent tariff on our lumber products. For a time, the unnaturally strong lumber market seemed to absorb that tariff, plus the B.C. strike, of course, which is over now, and the market is beginning to erode.

On the paper side - I touch wood, if you don't mind the pun - there is no tariff at the moment. In fact, we are just at the bottom end of losing protection in the brown paper area, which was negotiated away by a GATT agreement. With all of our products in the United States, or a majority of our products in the United States, anything that happens with respect to free trade is of concern to me.

But you asked me a question that I don't know what would be the right response to that: How do you manage the affairs of another country?

I haven't seen any government, at the moment, in Canada - provincial or federal - that seemed to have been able to help us out when the lumber tariff was going in. We got it; I didn't like it, but there you go. Now who's responsible for what American lumber producers are able to do in the United States Congress I don't know. I don't know how you answer that.

**MR. C. MANNES:** Mr. Chairman, those groups who thought that they would lose through some type of free trade agreement, comprehensive, and I'm thinking particularly agricultural producers, lined up to make public their case, that indeed some comprehensive agreement must not hurt them.

I didn't detect, from a Manitoba perspective, indeed from a Manfor perspective, the organizations standing out and saying we have to enter into some

comprehensive agreement so that our products, particularly softwood lumber - because it was so highly identified at that time - would not be injured in its attempt to gain market within the American context.

So, Mr. Chairman, it's sort of begs the question: Is Manfor at liberty to speak its mind on these very crucial trade policy issues that have great bearing upon the financial statement that is presented to us, or does the Crown corporation have to take its direction from the Minister in charge, who is opposed, quite frankly, in my view, to free trade?

**HON. J. STORIE:** Mr. Chairperson, the member is putting the chairperson of the board in a difficult position because government policy is set by the government, not by the Crown corporation.

I can indicate, and Mr. Harvey already has, that the fact is that Manfor had been operating in virtually a free-trade environment not as a result of any comprehensive set of negotiations. The government has a responsibility, when looking at the necessity or the appropriateness of a comprehensive set of trade negotiations, for not only the impact on the forest product industry but on the impact on agriculture, the impact on manufacturing and the impact of all of the other sectors of the economy. So isolating one particular sector and saying "How is it going to affect that particular sector?" is somewhat unfair.

They have and were operating in a free-trade environment until the United States decided, the industry there, that they wanted to file a countervailing duty and until the Federal Government capitulated and imposed a 15 percent surtax.

So all the province can do, and we have said on many occasions, is the approach that we would like to see taken - the preferential approach - I think would be through the GATT negotiations, and that if there is to be a free-trade agreement that all of the factors be taken into consideration.

I think that there are industries who have spoken out in Manitoba who have supported and those who have opposed the idea of a comprehensive free-trade arrangement.

Mr. Harvey would also like to comment, Mr. Chairperson.

**MR. M. HARVEY:** Yes, I would like to clarify what the company has done. I have advised the Minister on several occasions what the tariff would do. We have worked with the Department of Resources in preparing a case for the government with respect to the effect of the tariff on lumber. We have several trade associations that we work with. Central Forest Products is one, the CPPA is another. We have had our current acting president down in Toronto trying to put together with the industry a position paper when there was the beginning of a threat of similar action on paper products.

I think that the reason you haven't seen us as an individual company is because we don't have very much clout as an individual company, but through our associations, we have been working all along to try and convince those who could do something that free trade for us as a company - Manfor - is essential, that that's where we operate is in a free-trade environment.

**MR. C. MANNES:** Well, I understand, first of all, what the Minister said. He's reciting history and he's correct.

But, Mr. Harvey, you say that maybe the industry as a whole may have greater impact on the nation in the stance it takes to the bargaining tables with respect to lumber and lumber product exports into the American market.

I guess I have two questions. Firstly, do you not feel that it would be wise if Manitobans, through your public utterances - and I'm meaning Manfor - should be given a clear indication as to the impact of any restrictions because of countervails and/or continuing free-trade entrance, with or without comprehensive agreements? First of all, that should happen.

Secondly, are the same statements that the national industry is making on behalf of yourself, are they similar to the ones that you are making to the Minister? And if they are, why can't they be made public; why can't we see them in a written form or a public form? Because, quite frankly, I haven't seen them in a written form.

**MR. M. HARVEY:** Mr. Chairman, through you to Mr. Mannes: I think that the industry position generally has been in a written form. Certainly, there were several pieces of publicity with respect to the position of the Central Forest Products and the softwood lumber tariff. There is no reason that these things should not be public. It was our position, and I conveyed it to the Minister, that we would have preferred to see the Federal Government ride the thing out.

We thought we had a good case. We thought that we had won this case once already. Manfor had been audited by the United States State Department, and had come to the conclusion that we were not getting the resource for an unreasonably low price, which was the contention of the American lumber producers. We had gone through this in 1984, I think it was. We felt that we had a good case again, and I indicated to the Minister that we thought we should ride it out and let the decision come. That wasn't the case, that wasn't what happened. We now live with the result.

Now, I don't put 20-20 hindsight on anyone. It is my contention though that the case in the first instance was still good and that, who knows, maybe there might have been a different result. I qualify that remark, because at that stage it was pretty well a political decision more than a logical decision, and I'm talking about the United States now. I don't know whether or not our case, what was based on research and evidence, would have stood up as well as it did in the early years. So I don't put anybody to blame for that; I'm saying that we have done what we could; that was the position we took with the softwood tariff. I think that our company was one of the marshalling companies when the scare came about paper tariffs, so we're not sitting back and waiting, if you like.

The one thing that I would agree with you is perhaps it would be wise if the company itself were a bit more proactive in advising Manitobans of the consequences of these things, so that more people are educated to the situation. I would agree with that.

**MR. C. MANNES:** Mr. Chairman, in reviewing the Department of Natural Resource revenues the other day - when we were going through in Estimates, we

also did a little bit on revenues - we couldn't help detect that there would be \$800,000 flowing from the industry to the coffers of the province in some new fashion to represent the 15 percent export tax.

Can Mr. Harvey give us any indication as to whether there's the new method of recovery of this \$600,000 or \$800,000 that the industry, mostly Manfor, will have to pay to the province in lieu of the 15 percent tax? Can he give me any indication as to its state of development?

**MR. M. HARVEY:** I am not aware of where the province and the Federal Government are with respect to their negotiations. We are currently paying the 15 percent as a tax to the Federal Government, but I don't know what's happening right now.

**MR. C. MANNESS:** So, Mr. Chairman, when the government shows then \$600,000 or \$800,000 as a revenue, because of the new commitment through the agreement, the commitment to the Americans, and indeed there will be a higher stumpage fee, for a better word, Manfor, in this case, doesn't know what type of plan, what type of recovery system might be in effect. Indeed, it's going to be imposed upon them then by the Provincial Government.

**MR. M. HARVEY:** We have made recommendations to the Provincial Government with respect to what would happen, our concern about a conversion of that tax to a stumpage fee or something of that nature. Our original agreement with the province on reforestation, as I said earlier in this committee, was based on some concessions with respect to stumpage fee charges. So we have already indicated to them that we would be concerned if that were to occur.

**MR. C. MANNESS:** Mr. Chairman, I ask Mr. Harvey how often do officials or does an official from the Department of Crown Investments communicate with Manfor?

**HON. J. STORIE:** Mr. Chairperson, there's a member for Crown Investments on the board.

**MR. C. MANNESS:** Has the situation of monitoring or representation by that government on the board changed at all in the last year, and to what degree, other than sitting on the board?

**MR. M. HARVEY:** The only change with respect to that is the member being placed on the board from Crown Investments; that occurred this year.

**MR. C. MANNESS:** There's been a Department of Crown Investments now, since the beginning of the Pawley term, in '81-82. Did that department have access to board minutes during 1982?

**MR. M. HARVEY:** I'm not certain that they had them in '82. They do get them as a matter of course and have for a number of years. I'm not sure about 1982. That was the year that I came on the board. It seems to me that there was a government member when I first came on, Mr. Jones, and I'm not certain whether

Crown Investments asked for minutes in '82. If they had have, they would have received them, yes.

**MR. C. MANNESS:** So basically the only difference then over the last four to five years, as far as the Department of Crown Investments monitoring Manfor is rather than requesting minutes, now an official of that department is in attendance at most of the board meetings. Is that a fair statement?

**MR. M. HARVEY:** Well, in addition to which, of course all of our capital presentations to the Cabinet committee are channelled through them. They analyze them and they get an operating statement every month; they analyze that and they have a responsibility to report to their own Minister on the affairs of the corporation.

**HON. J. STORIE:** Mr. Chairperson, I think that over the last several years, Manfor certainly, as with all of the Crowns, have seen that relationship improving. The appointment of someone to the board, I think will assist that. As the member knows, there is also intended to be legislation to further define the role of the Crown Investments with respect to Crown corporations. I know where the member's coming from.

**MR. C. MANNESS:** Does he, do you?

**HON. J. STORIE:** I hope I do, and that is that I think we all recognize that there is a need to assure direction continuity, that facts flow from Crown corporations to government; that is happening.

**MR. C. MANNESS:** Well, Mr. Chairman, I don't really believe the Minister has an idea from where I'm coming because, as he has said, there's another announcement about to be made with respect to monitoring and supervision of the Crowns by the department. Let me remind him that three of them have been made over the course of the last five years. I think it's fair to say - and I don't want to put words in the mouth of Mr. Harvey - but nothing significantly has changed in the last three years. Indeed, the capital plans, I dare say probably were scrutinized by that department three years ago, or by some department of government before final presentation to the Cabinet.

So let me put on the record, members may not wish to agree, that in my view, other than the fact that some representative now in the department sits in attendance at the board meetings, nothing significantly changed in a monitoring sense. I don't see how many things can change from here forward, so I just think that I had to be said, and if the Minister wishes to reject my commentary, fine.

**MR. M. HARVEY:** Yes, Mr. Chairman, through you to Mr. Manness.

I personally have never felt under-monitored by bureaucrats in this job, but I want you to know that in the last year, the additional exercise that has taken place is in regard to the policy exercise, which was at least steered by Crown Investments with our involvement, where they were searching for consistent policies with respect to conflict of interest, those kinds of things. They have had a fairly extensive dialogue



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with us on that particular point. They examined all of our existing policies, worked with some of our people on policy, and that is something that has happened in the current year. That's the only thing that I could add to that conversation.

**MR. CHAIRMAN:** The report of the committee on Manfor—pass.

Committee rise.

**COMMITTEE ROSE AT:** 12:02 p.m.